

# **FISCAL NOTE**

## **SB 3171 - HB 3089**

January 21, 2008

**SUMMARY OF BILL:** Reduces the state sales tax rate on food and food ingredients from 5.5% to 5.0%, effective July 1, 2008.

### **ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$43,389,000**

**Decrease Local Gov't. Revenue - \$2,089,000**

**Other Fiscal Impact – In FY09-10, there will be approximately \$2,274,000 in forgone state sales tax revenue in addition to the recurring decrease. The extent of forgone revenues will increase in subsequent years due to the natural growth of taxable food sales.**

#### **Assumptions:**

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- According to the Department of Revenue, state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY06-07 were approximately \$495,000,000.
- The state sales tax rate on food and food ingredients was 6.0% during FY06-07.
- FY06-07 taxable food sales were approximately \$8,250,000,000 ( $\$495,000,000 \div 6.0\% = \$8,250,000,000$ ).
- Annual growth in taxable sales is estimated to be 5.0% per year (consumer price index on food prices increased 4.9% from December 2006 to December 2007).
- Adjusted taxable sales are estimated to be \$9,095,625,000 for FY08-09.
- The decrease of state sales tax revenue resulting from the proposed 0.5% rate reduction for food sales is estimated to be \$45,478,000 ( $\$9,095,625,000 \times 0.5\% = \$45,478,125$ ) in FY08-09.
- The estimated \$45,478,000 in state sales tax revenue would have been apportioned as follows in FY08-09: \$13,200,000 to the General Fund,

\$29,604,000 to education, \$2,089,000 to local governments, \$167,000 to the Department of Revenue (DOR), and \$418,000 to the Sinking Fund.

- The net decrease to state revenues for FY08-09 is estimated to be \$43,389,000 (\$45,478,000 - \$2,089,000 local share = \$43,389,000).
- Local governments are not held harmless from the loss of state-shared sales tax revenue (\$2,089,000 in FY08-09).
- The state will forgo additional sales tax revenue in subsequent years due to the natural growth of taxable food sales.
- Forgone state sales tax revenue for FY09-10 is estimated to be \$2,274,000 (\$45,478,000 x 105%) - \$45,478,000 = \$2,273,900).

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director

/rnc